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national farmers union

In Union is Strength

National Farmers Union

Submission

to the

House of Commons
Standing Committee on Agriculture

on the subject of

Bill C-85 - "Canagrex"

presented in

...tawa, Ontario

April 28, 1982

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1. We appreciate the opportunity to discuss the concepts of "Canagrex" with your Committee.

2. In the words of Section 24, Bill C-85, "Canagrex" is deemed to be a word adopted "as an official mark for services, namely, facilitating the expansion of Canadian agricultural production through assisting the export of food and agricultural products and the export of those products and everything necessary to the foregoing ...."

3. We welcome the concept of a special agency designed to expand Canada's exports of agricultural products. It is a matter of fact that Canada's exports of agricultural products in dollar value have already been expanding at a fairly impressive rate. From average annual exports of nearly $3 billion in the period 1971-75, agricultural product exports reached over $7.8 billion in 1980, as illustrated by Table 1 (Appendix A).

4. The dollar value of agricultural product exports in the period under review increased by 261%. In 1980, it represented a dollar surplus in the export of agricultural products over food imports of

more than $2.7 billion. (Appendix A, Table 2) Canada's total favourable trade balance in all commodities in 1980, inclusive of agricultural products, was $5.25 billion. The trade surplus in agricultural products represented over 50 percent of the total trade surplus, while accounting for only 10.6 percent of total commodity trade in dollar value.

5. The major commodity sector in our agricultural product exports has been "grain" and within that grouping the operations of The Canadian Wheat Board overwhelmingly dominates the export market.

6. It is appropriate to observe that while the government in this legislation proposes to establish a new crown corporation for the stimulation of food exports including grains and oilseeds not currently under the jurisdiction of The Canadian Wheat Board, we strongly believe and recommend that in order to keep things in proper perspective, the current non-board grains, rye, flax and rapeseed, ought to be placed under the marketing jurisdiction of The Canadian Wheat Board.

7. In our view the disasterous price and marketing experience that has befallen rapeseed producers over these past two crop years would have been greatly eased if that oilseed had been handled through the C.W.B.

8. Bill C-85 is intended to complement the aims and objectives outlined in the Minister of Agriculture's agri-food strategy, "Challenge for Growth", dated July 9, 1981.

9. On the matter of market development, the federal agri-food strategy stated in part as follows:

> *"Both commercial and concessional requirements for food are expected to increase dramatically over the next two decades. Commercial exports depend on the ability of foreign countries to earn sufficient foreign exchange to purchase agri-food products and services. On the other hand concessional funding is required either to subsidize prices to meet those of competitors or to supplement the importing country's inadequate budgetary and/or foreign exchange resources. Even if Canada acted in concert with all the other countries which are traditional exporters of food and other donor nations including the oil rich OPEC members, it would be unrealistic to expect to meet the total anticipated needs of developing and industrialized countries for basic food stuffs during the next 20 years.*
>
> *"If the Canadian agri-food sector is to achieve its potential share it must develop new commercial markets and maintain existing ones for the commodities in which Canada has or can develop a competitive advantage. Internationally this implies an intensified effort directed towards industrialized countries offering relatively free access to food imports, developing countries with significant commercial import potential, and those centrally planned countries with similar import potential. Where commodity import replacement offers significant benefits, coordinated market and production efforts will be made to exploit the opportunities.*
>
> *"Given this overall objective, the elements of the strategy for market development include:*
>
> *(i) optimizing value-added in the agri-food system*
>
> *(ii) improving access to foreign markets*
>
> *(iii) increasing efficiency in the Canadian agricultural and food delivery system*
>
> *(iv) improving coordination between governments and industries*
>
> *(v) promotion of a "buy Canadian" philosophy in secondary and retail outlets, and*
>
> *(vi) the encouragement to private institutions to develop new methods of marketing Canadian food products."*

10. The strategy, in short, of both the Minister's "Challenge to Change" document and Bill C-85 is to expand food production in coming years. <u>What is missing in both documents is any real concern over the marketing and pricing instability that confronts farmers for many types of food currently produced.</u> This is consistent with the pursuit of a cheap food policy.

11. Section 14(2)(a) specifically states Canagrex shall not "pay to producers or processors a subsidy directly on any Canadian agricultural product or food products".

12. Section 14(2)(b) further stipulates that the agency shall not "do anything to encourage producers of agricultural products to produce any agricultural product for export at a price that would require a subsidy to be provided in order for the producers to realize an adequate return on their production".

13. We can accept the notion that food should not be specifically produced at a loss in order to meet export markets. We may be able to also accept that Canagrex directly not pay subsidies to producers or processors for food entering into export provided that does not exclude trade in certain types of food that is now eligible for stabilization under federal or provincial legislation or may become eligible for subsidization in future. Without such assurance, reliability of supply for new markets which may be developed, will not result.

14. Farmers in this country have experienced a very rapid increase in production costs - the cost index having tripled over the past ten years outstripping the farm price index which declined in 1981 from 1980 levels. Price stability is essential.

15. The Act can directly "purchase agricultural products and food products", enter into "contracts" or "joint ventures" with various agencies or individuals to "act as marketing representatives" or provide "grants and contributions" for these various purposes. These

powers under Section 14(1) do not imply that the various agencies or individuals working under a Canagrex contract are likely to lose money in the proposed export ventures. We strongly believe farmers must be assured of financial protection by government.

16. We are specifically concerned over the status of meat exports. The federal agri-food strategy stresses increased production, particularly of beef, however, the marketing structure remains unchanged. Our concern is that the Canagrex program not distract from the continuing and growing need for the establishment in Canada of an overall National Meat Authority.

17. We are further concerned that some degree of co-ordination in export efforts occur between various provincial marketing boards of similar commodities - such as hogs. It would, we submit, be disasterous to the economic interests of producers should provincial agencies and private sales agencies engage in price cutting while competing for similar export markets either through Canagrex or by acting unilaterally.

18. The fortunes of potato producers also have been extremely erratic. Failure, to date, in the establishment of an Eastern Canada potato marketing agency capable of bringing about some degree of marketing and price stability has resulted in unstable export markets for this product. This domestic marketing need must be fulfilled.

19. While Bill C-85 proposes wide-ranging powers for the conclusion of commercial export transactions in food products, it is a good deal less specific about how demands will be met from importing countries

for the opportunity to sell goods to Canada.

20. The recognition of an increasing volume of world trade being negotiated on a government-to-government basis is an important principle embodied in Bill C-85. There is currently in the world a growing involvement between trading countries in forms of transactions known as "compensation" or "countertrade" which hark back to the pre-mercantile barter system.

21. Most of the demand for these arrangements have originated from the state-trading houses of the comecon (communist) countries. These arrangements have been spurred in these countries by the accumulated indebtedness to western nations and the deterioration of growth prospects in both east and west for the next five, or perhaps even ten years, have created a need for new forms of financing.

22. At the same time there is a large group of developing countries, many of them with chronic balance of payments deficits, which wish to market their products in the industrialized world and resort to countertrade arrangements in an attempt to overcome competition and protectionist barriers and penetrate new markets.

23. We submit that accommodation for compensation or countertrade arrangements could easily be included in Bill C-85 without major revision. It is an option that should be provided and employed where feasible.

24. For example, a relatively simple trade deal involving exchange

of food for tropical fruits, sugar, coffee, tea, liquor, minerals, handcrafted or manufactured goods, might be arranged with various Caribbean or Asian countries who lack hard currencies. Canagrex could act as the clearinghouse bringing together the export transactions and locating appropriate importing firms.

25. Recently, the World Trade Centre, Toronto, conducted a seminar attended by business and financial representatives to discuss the growing concept of barter and trading houses. Some articles relative to this subject are attached in Appendix B.

26. As a crown corporation, we recommend that Canagrex be required to annually report to the House of Commons and its efforts reviewed by the Standing Committee on Agriculture as is the case with The Canadian Wheat Board and the Canadian Dairy Commission.

27. In conclusion, we believe the concept of Canagrex has the potential to effectively serve the economic interests of farmers as well as the nation through the expansion of food exports. But we cannot stress too strongly that the expansion of food trade, if it is to be looked upon as long term, must be sensitive toward meeting the economic interests of primary producers. This should be a matter of first priority.

All of which is respectfully
submitted by:

THE NATIONAL FARMERS UNION

Index to Appendixes

Appendix A	Page
. Table 1 - Exports and Exports of Agricultural Products	9
. Table 2 - Imports and Imports of Agricultural Products	10
Appendix B	
. Article - Reintroducing the Barter Economy	11
. News Item - Chicago Tribune - "Chrysler Backed Out of Deal ....."	13
. News Article - Financial Times - "Big League Bartering"	14
. News Article - "Barter in the Eastern bloc"	15
. Letter - Massey-Ferguson-Perkins Ltd.	16
. Letter - Kitamura Yates & Margolis	18

Appendix A

TABLE 1. TOTAL EXPORTS AND EXPORTS OF AGRICULTURAL PRODUCTS TO ALL COUNTRIES BY MAJOR GROUPING, AVERAGE 1971-75, CALENDAR YEARS 1976-80

Commodity	Average 1971-75	1976	1977	1978	1979	1980
	- thousand dollars -					
All commodities	25,244,302	37,650,654	43,684,600	52,259,279	64,190,327	74,228,694
Agricultural products	2,996,378	4,011,842	4,326,692	4,852,475	6,107,974	7,844,615
Grains[a]	1,733,686	2,389,531	2,269,171	2,385,679	2,773,606	4,447,175
Wheat	1,410,569	1,731,848	1,880,993	1,911,825	2,179,318	3,795,029
Barley	291,842	542,364	312,347	384,244	509,040	404,183
Grain products (human)	125,606	208,702	211,435	263,093	279,584	336,904
Wheat flour	62,991	129,816	119,605	152,258	140,215	110,168[f]
Animal feeds[b]	71,456	108,807	125,831	123,577	168,787	184,867
Oilseeds	305,131	283,293	440,728	543,672	862,759	645,500
Flaxseed	95,580	66,278	93,539	102,535	168,787	137,265
Rapeseed	185,441	185,972	310,048	369,550	631,445	421,902
Oilseed products	37,383	48,468	101,883	115,034	140,673	202,875
Oilcake and meal	17,071	18,310	31,233	38,649	36,290	65,245
Animals, live	83,301	119,809	135,258	195,597	223,641	228,848
Cattle	71,579	109,025	123,902	165,205	196,298	188,473
Meats	148,333	207,537	222,043	309,160	427,665	514,173
Beef, veal, fresh, frozen[c]	37,622	57,529	53,816	64,601	106,615	123,240
Pork, fresh, frozen[c]	68,259	93,596	115,952	171,772	222,708	276,403
Fancy meats (offals)[d]	15,441	19,686	17,927	28,631	39,262	49,408
Bovine, fresh or frozen	6,286[e]	7,380	8,002	9,679	15,486	20,617
Pork, fresh or frozen	10,561[e]	10,343	8,463	17,183	22,039	27,360
Other animal products	137,815	207,224	258,678	301,895	438,775	420,684
furs, hides, and skins	76,909	126,544	158,684	191,511	294,857	273,234
Dairy products	64,278	64,369	92,032	92,806	121,795	159,538
Cheese	10,837	5,620	5,204	6,245	9,128	10,725
Skim milk powder	49,173	47,379	69,866	56,516	47,443	46,135
Evaporated milk	183	40	7,367	18,903	55,022	87,138
Poultry and eggs	15,928	15,476	21,455	27,141	25,348	44,906
Fruits and nuts	28,083	30,999	44,237	66,798	71,977	80,208
Apples, fresh	10,905	13,306	17,088	25,803	29,539	33,252
Vegetables (excluding potatoes)	50,167	74,446	84,719	76,556	113,034	160,366
Potatoes and products	16,777	46,136	33,415	25,513	36,487	56,175
Seeds for sowing	20,310	21,603	31,693	31,775	36,845	36,308
Maple products	6,538	7,864	9,649	11,116	15,004	15,398
Sugar	17,988	17,299	41,875	46,336	50,582	11,456
Tobacco, raw	61,131	64,864	64,231	99,679	137,527	74,299
Tobacco bright flue-cured	58,000	60,427	61,005	92,934	130,605	68,585
Vegetable fibres	2,875	5,475	6,780	7,132	7,915	8,416
Plantation crops	4,815	10,301	27,535	9,398	9,033	5,427
Other agricultural products	64,777	79,639	104,044	120,518	167,395	211,092
Peat and other mosses	21,290	31,727	37,147	43,069	59,895	69,298

[a] Excludes seed wheat and seed oats (included in "Seeds for Sowing").
[b] Excludes oilcake and meal (see "Oilseed products").
[c] Excludes fancy meats (offals).
[d] Includes poultry offals.
[e] Three-year average, 1973-75. Not reported as separate items prior to 1973.
[f] Hard spring wheat flour only.

Source: "Canada's Trade in Agricultural Products, 1978, 1979, 1980" AGRICULTURE CANADA

Table 2. TOTAL IMPORTS AND IMPORTS OF AGRICULTURAL PRODUCTS FROM ALL COUNTRIES BY MAJOR GROUPING, AVERAGE 1971-75, CALENDAR YEARS 1976-80

Commodity	Average 1971-75	1976	1977	1978	1979	1980
	- thousand dollars -					
All commodities	24,864,573	37,494,010	42,362,711	50,101,616	62,724,005	68,979,364
Agricultural products	2,144,789	3,132,728	3,557,288	4,016,363	4,681,523	5,107,164
Grains	93,585	121,523	81,698[a]	84,552[a]	143,648[a]	219,831[a]
Corn	71,721	95,091	53,705[a]	47,350[a]	101,122[a]	169,420[a]
Grain products (human)	39,103	57,230	77,014	79,282	91,316	108,334
Bakery products	16,184	28,897	36,511	37,956	40,857	43,859
Animal feeds[b]	24,634	33,612	32,287	42,974	53,994	58,264
Oilseeds	92,832	130,995	147,122	154,035	176,321	200,046
Soybeans	63,164	85,969	98,954	91,245	107,806	141,901
Oilseed products	129,622	190,460	226,662	264,164	299,538	267,596
Oils	82,953	109,794	123,609	148,127	162,310	148,018
Oilcake and meal	40,143	70,248	90,690	103,281	131,580	113,152
Animals, live	71,588	88,865	30,157	56,571	47,547	87,871
Cattle	59,429	70,463	13,361	36,833	21,410	60,549
Meats	171,195	335,393	294,843	331,248	332,374	286,888
Beef, veal, fresh, frozen	90,047	133,747	88,200	147,545	182,354	177,297
Pork, fresh, frozen	31,769	144,562	149,167	110,805	62,808	30,645
Mutton, lamb, fresh, frozen	20,608	18,843	19,181	25,944	41,074	37,861
Other animal products	121,733	187,223	199,643	231,367	362,751	319,558
Hides, skins, furs	61,561	102,119	107,320	131,952	244,155	196,226
Wool, raw	23,544	30,020	33,696	38,847	51,374	46,026
Dairy products	52,231[c]	56,718	63,926	78,446[c]	80,937	87,779
Cheese	33,222	52,241	58,309	66,024	70,867	74,591
Poultry and eggs	20,472	59,916	52,734	59,111	72,907	56,369
Shell eggs[d]	8,238	17,387	16,295	19,553	26,992	17,506
Fruits and nuts	387,353	546,143	649,541	818,277	968,584	1,008,292
Citrus, fresh or processed	105,507	142,084	176,500	243,581	279,039	279,370
Bananas	40,449	59,133	66,621	74,688	90,575	98,458
Vegetables (excluding potatoes)	195,459	289,085	359,565	413,245	476,671	469,273
Fresh vegetables	130,606	199,274	237,544	278,676	316,990	324,158
Potatoes and products	16,350	29,182	37,095	32,653	26,257	29,531
Seeds for sowing	16,606	23,741	35,775	40,609	57,241	54,900
Sugar	269,478	274,140	230,588	211,277	251,271	527,358
Tobacco, raw	7,706	7,690	9,031	10,661	8,949	35,440
Vegetable fibres	65,213	76,339	85,985	94,134	115,949	132,519
Cotton, raw	55,816	65,889	76,693	85,100	105,429	122,704
Plantation crops	223,059	405,665	686,439	717,389	777,762	785,204
Coffee and products	124,212	250,479	424,378	438,947	464,670	485,225
Tea and products	27,838	35,868	73,289	58,464	58,207	64,846
Other agricultural products	146,570	218,808	257,183	296,368	337,506	372,111
Spices, flavorings, and confectionery	55,779	78,650	97,942	110,457	119,758	130,458

[a]Excludes seed corn - 1977 - $ 7,719,000)
1978 - $ 8,197,000)
1979 - $14,282,000) Included in seeds for sowing.
1980 - $12,791,000)
Data not available prior to 1977.

[b]Excludes oilcake and meal (see "Oilseed Products").
[c]Includes 62,635,000 pounds of butter valued at $31,446,000, 1973;
53,765,800 pounds of butter valued at $31,237,000, 1974;
10,063,900 pounds of butter valued at $ 5,896,000, 1975;
11,120,000 pounds of butter valued at $ 4,989,000, 1978.
[d]Includes hatching eggs.

Appendix B

Reintroducing The Barter Economy

By William Flanagan

The Barter Baron

Anyone visiting the Atwood Richards, Inc., offices at 99 Park Avenue knows right away that this is no conventional business. The reception area houses a huge cage containing twenty chirping birds. There is a chess set with steel men two feet high in one corner. In another is an air-hockey game. And stereo headsets. Elsewhere there are a 500-gallon fish tank, a five-foot ceramic bulldog, models of New York tenements that light up, accompanied by street noises, toasters, rug samples, boxes of records, calculators, ski equipment, television sets, cocktail mixes, perfume.

Although Moreton Binn, president of the company, was an orphan, this eclectic assemblage is not due to any childhood deprivation for which he is trying to compensate. No, Moreton Binn is the media-anointed Barter Baron, and these are but some of his wares.

He sits in his office amidst mounds of clutter. A sign (doubtless scrawled a few nights earlier by an exhausted aide) hangs from his desk: IT'S 11:45. DO YOU KNOW WHERE YOUR HOME IS? Binn's eyes bulge as large as the rubies and emeralds he is examining—stones brought in by a magazine owner who wants to barter the gems for advertising space and hotel credits. They are worth $1 million; a deal is worked out before the day is over.

"Now I have to figure out what to do with these damned stones," he says.

You and I should have such problems. This fiscal year alone, Binn figures his privately held company will have handled about $100-million worth of goods and services—everything from jet aircraft to bat manure. But to generate that volume of trading takes more moves than Doctor J has. Here is a typical trade deal which Binn's company arranged:

1. Atwood Richards negotiates a trade with a toy manufacturer—exchanging plastic mix for an excess stock of hockey pucks.
2. The plastic mix came from a big chemical company, which traded for television time with Atwood Richards. The company wanted to advertise its room deodorizer.
3. The television station supplying the advertising time got a new camera from Atwood Richards.
4. The equipment manufacturer supplying the camera got brochure printing in exchange for the camera.
5. The printer doing the brochures got ocean cruises.
6. The cruise line got food products.
7. The food-processing company got radio advertising time and magazine ad space. Radio time came from existing ARI inventory.
8. The magazine got sales-meeting facilities at a hotel.
9. The hotel supplying the rooms got wallpaper from ARI.
10. The wallpaper company got magazine space left over from step 8, in exchange for its goods.

Now the trick is to make a profit out of all this. The gimmick is to build leverage into each transaction—extract a vigorish, as it were. Only 80 or 90 percent of the product or service acquired in each trade gets passed along. The excess is sold through ARI's merchandising department—for cash. This accounts for the company's dollar profits. Who are the buyers? It depends.

"We often have to sell stuff overseas, because manufacturers don't want to jeopardize their dealers here," Binn explains. "If a company is stuck with newly obsolete television sets—such as the remote-control sets that still use

a clicker instead of the new pressure-sensitive controls—I can unload them. But it might have to be offshore."

Or, Binn might sell goods to a large discount house, or unload them to a bank or other business for use as premiums or gifts. In some cases, he even stages his own sales. Two months ago, for example, he staged a "Chapter XI" sale at a warehouse in Long Island City, offering such items as TV sets, radios, appliances, ski, golf, and hockey equipment, garden tools, perfumes, colognes cookware, jewelry, encyclopedias, art posters and books, goggles, toys, candles, candlesticks, and boxed candy—all acquired in trade—for sale at or below wholesale prices. Sharp-eyed consumers made a killing, but it was strictly cash-and-carry.

"The thing that makes this business go is that no one operates at 100 percent efficiency—airlines, hotels, print shops, TV and radio stations—and no one produces exactly the right product in exactly the right quantity," says Binn. "I just get them all together."

In many cases, the common denominator in trades is advertising, since virtually every business can use it. "If advertising isn't sold—bingo. It's gone. You can't stockpile it and use it later. Every radio and television station has some time to bargain with. We acquire time credits, which we can use at any time, and will even help a client map out an advertising schedule using the credits we have accumulated. We have credits at hundreds of radio and TV stations."

Sometimes Atwood Richards will produce programs like quiz shows or personality "specials" and barter them to the stations for time credits. One day when I visited Binn he was watching a tape of a show featuring Neal Sedaka. Sometimes the prepackaged programs will include ads from some of ARI's clients.

Atwood Richards is the largest and oldest of the barter companies, with offices in New York, Chicago, Beverly Hills, and Toronto. It started operation in 1957. One of the reasons for its success is its healthy inventory of radio and television time, some of it bought years ago at much lower prices, or in exchange. So A.R. has considerable leverage to start with—so much so, in fact, that it can sometimes benefit a client by buying goods from him and selling them right back at a lower price.

Example: A hardware manufacturer discovered to his horror that $2-million worth of hand tools he had produced were slightly flawed. He approached ARI and sold the tools for the normal $2-million wholesale cost, thereby protecting his profit. He received no cash, of course, but received instead printing service, two sales meetings, consumer-magazine space, and radio ad time, together worth $2 million retail.

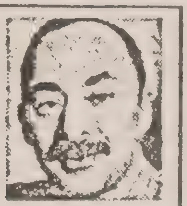
The hardware manufacturer then bought the tools back from ARI for $1 million in cash, took its trade name off the goods, and unloaded them where it knew it would not damage existing markets. It grossed $1 million in cash on that sale—what it had paid ARI. The barter company made a nice profit because the $2-million worth of services it surrendered had cost it much less than the $1 million it received in exchange.

"The hardest part of my job is making people aware of all the deals that they can work out using barter. You have to use your imagination," says Binn, who refused to disclose just how much the company makes on its $100-million volume.

"But if you want to go out and start up another barter company like this one, I'll lend you the money," he said, only half joking. —W.F.

;hrysler backed out of deal, lost at least $20 million

Chicago Tribune
Thursday, January 31, 1980



Dan
Dorfman

WHEN A COMPANY'S fighting for financial life — and that's surely the e with Chrysler — obviously every nny helps. That being the case, would ı believe that the ailing auto maker — an unpublicized and questionable ion — blew at least $20 million and haps $24 million?

t makes you wonder if our generous cle Sam is using his noodle in pro- ing $1.5 billion in loan guarantees to l out the debt-ridden company.

t also raises questions as to whether Iacocca, Chrysler's publicity-hungry irman, shouldn't be spending more e in the corporate boardroom mind- the shop and less time before the TV neras.

THIS STORY dates back to last Sep- ber when the nation's largest barter- firm, Atwood Richards, Inc., came with an intriguing idea. In brief, At- od—which essentially trades media e for a company's slow-moving in- tories—would offer to take 10,000 Chrysler vehicles off its hands ssenger cars, vans, trucks, etc.) in ex- nge for a combination of cash and dit. Such an offer at that time would e covered virtually all of Chrysler's inventory of 12,000 vehicles.

relayed its offer to Chrysler's nagement in a letter to Iacocca. And Nov. 12, a meeting took place in roit between Jerry Pyle, Chrysler's president in charge of U.S. omotive sales, and Atwood chairman eton Binn. Pyle estimated the age unit price of the vehicles (to the ers) at about $6,500. Binn countered an offer of upwards to $4,000 a cle, plus an additional $2,500 in a e balance.

HAT $2,500, Binn explained, could ısed for advertising, as well as the hases of such needed products and erials as tires and upholstery. Binn, ıct, told Pyle that one of the nation's -known tire names was immediately ıared to become part of the transac-

Atwood, Binn added, would, upon completion of an agreement, immediately transfer $40 million into Chrysler. There were no terms, no conditions, no waiting for the money.

The positive benefits to Chrysler were obvious: the $40 million cash infusion could immediately provide some relief to the company's sizable cash flow problems; further, that additional $25 million credit bank could be used by Chrysler to reduce its cash outlays against basic purchases. And, of course, Chrysler would go into '80 with a lean inventory position.

IN TURN, Atwood—whose roster of over 100 major corporate clients includes the likes of Olivetti, Liggett, Foremost McKesson, Schick, Pet Foods, and Shell—would have added to its laurels by pulling the single biggest bartering deal ever. And it would dispose of the cars by selling them to its corporate clients.

One immediate concern would be the problem of circumventing Chrysler's 4,800 dealers. Atwood had an answer for that one: they would be part of the deal. Atwood would receive the delivery of all of its cars through authorized Chrysler dealers. It would pay the dealers the usual preparation fee (ranging from $50 to $200). And on those optional features, such as a radio or air conditioning, Atwood would buy them from the dealers at full price.

Binn, in relating the story to me said, "Pyle flipped out; he loved it." And in a follow-up conversation, an enthusiastic Pyle asked Binn—so as not to ruffle any feathers—to come to Detroit for another meeting and explain the specifics of the transaction to some of the key people in the fleet, purchasing, and advertising divisions. Binn agreed and he did just that on Dec. 9.

THAT MEETING, Binn told me, "went beautifully and everybody was very excited. . ."

A happy Binn went home thinking he was on the verge of doing the deal; he was wrong.

Less than a week later, Chrysler—in a surprise move—announced a six-day $2,000 discount of its entire '79 inventory (embracing 5,000 cars and 7,000 trucks). A spokesman at the time acknowledged that the incentives could cost the company some $24 million in discounts. But he said, "getting them out of our inventory (which is what the Atwood deal would have done) is cheaper for us than keeping them."

That offer, though, was hardly a world-beater; it produced sales of only 5,600 units. And to date, the '79 inventory still stands at 2,500 cars.

CHRYSLER'S RATIONALE, as Pyle observed in a recent letter to Atwood, was "to keep these units in the dealer channel, as well as letting the dealers and customers become the beneficiaries of the incentive monies."

That view, though, is clearly contrary to Pyle's initial thinking. Why the change of heart? I would like to have questioned him about it, but I was told he was unavailable.

Interestingly, another Chrysler official who was involved in the Atwood-Chrysler talks, Kevin Foley, manager of administration and planning in the purchasing division, told me: "It was a very doable deal from a purchasing standpoint . . . and I didn't see any hang-ups."

I'M NO EXPERT on autos or bartering, but even a casual observer would have to question Chrysler's actions. Why would the auto maker — so desperate for cash — take a $4,500 cash offer from its dealers payable in roughly 20 to 30 days (the time it would take them to raise the financing) instead of a $4,000 cash offer payable immediately? And for that $500 difference, it's tossing away a $2,500 per unit credit. In essence, it's forfeiting a 30-day cash flow (the use of Atwood's money). . .as well as blowing $20 million.

Atwood, by the way, has also made a proposal to Chrysler in which it would take up to 10,000 excess cars at the end of each '80 quarter. That would mean, assuming a similar $6,500 price tag per vehicle, a $260 million guarantee to Chrysler. Accordingly, Chrysler could enter each quarter with a non-burdensome inventory position.

Binn, obviously steaming at the Chrysler rejection, scribbled in bold lettering on a tablecloth the amount of dollars he insisted that Chrysler had thrown away. "I can't believe it," he howled. "These guys have to be real jerks. No wonder they may go down the tubes. . ."

Big - league bartering

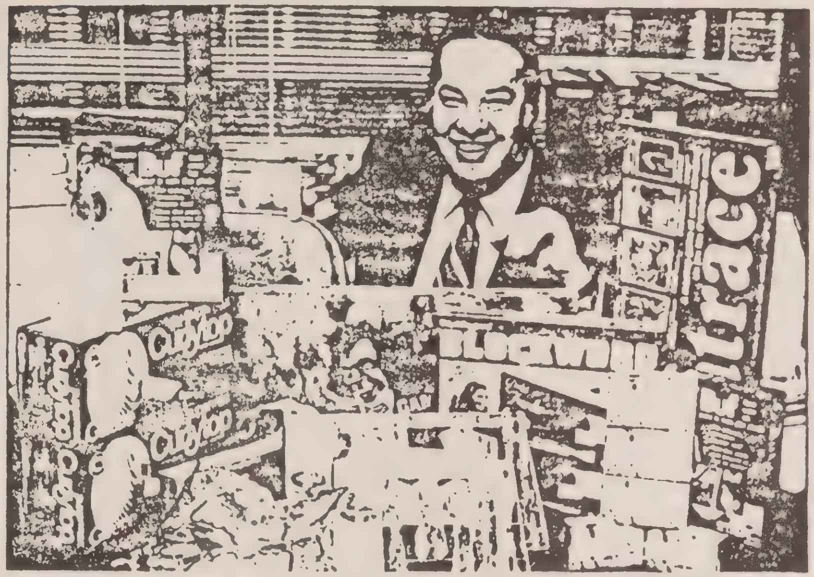
Manufacturers' cashless deals on the increase

By Jacquie McNish
Times staff

Soaring interest rates are anathema to most Canadian executives, but at least one business group is greeting rate rises with open arms.

"I cheer everytime interest rates go up because I know I am going to get a call from someone who will say 'I'm sitting on $500,000 worth of widgets that I can't get rid of,'" says Tom Johnston, president of Atwood-Richards Canada Ltd., the country's largest private corporate bartering firm.

To help cushion lagging sales, more manufacturers are making deals with corporate bartering firms to exchange their surplus product lines for the services or products of other companies.



Times photo David Grosskind

Johnston of Atwood-Richards: Cheering every time interest rates go up.

Excess Inventories

Serving as brokers between corporations who want to dispose of excess of obsolete inventory, a handful of corporate bartering companies in Canada arrange cashless transactions of goods between two or more firms. The direct form of trade is an increasingly attractive means of emptying warehouses without incurring losses.

Reflecting manufacturers' growing concern about swollen inventories, in the last six months Atwood-Richards has traded more goods than it did in the past four years.

"Banks are taking a very dim view of excess inventory" during the current economic slump, Johnston says. Cashless bartering not only helps companies move problem inventory, he says, but it also alleviates cash-flow shortages.

Atwood - Richards arranges corporate deals by purchasing the unwanted products of a company at manufacturer's cost. Usually the company agrees to keep the products in their warehouses until the bartering company has found another firm willing to trade for those goods.

Money back

In entering a bartering deal, the manufacturer is supposed to recoup the cost of producing his product. In the past, the owner of leftover inventory lines would have had to settle for the liquidators' usual offer of about 25 cents on each dollar's worth of goods.

The average value of product transactions between Atwood-Richards' 47 clients is about $200,000.

When bartering firms first initiated corporate trades in the 1950s the majority of corporations exchanged their goods for advertising time and space. In the past year, however, Johnston says companies have been trading for airline tickets, hotel and conference accommodation and computer equipment for internal use.

Bartering companies estimate that corporate bartering in Canada amounts to a $10-million-dollar-a-year business. Statistics on the types and volume of goods traded through bartered exchanges are scarce, however, because few companies are eager to reveal that they have excess or obsolete inventory.

Tony Tengelly, vice-president of corporate marketing for Warner-Lambert Canada Inc., says that although Warner-Lambert has been trading consumer products through bartering firms for several years, it has limited use for non-monetary trade.

Company name

Some of Warner-Lambert's products such as gum and mouthwash have expiration dates and Tengelly says the company wants to be very careful about how the goods are distributed. "Even though we may want to eliminte certain products, they still carry the company's name and when the goods are bartered we lose control over how and where they are distributed."

Despite its limitations, Tengelly says Warner-Lambert views corporate bartering very favorably and plans to use it for company products such as gift razor sets left over from the Christmas season.

In St. Paul, Minn., 3M Co. has become so involved in the bartering of its office products that two years ago it established its own team of corporate barterers to streamline the company's decentralized inventories. It is the only North American corporation with an internal bartering team for domestic trade.

Dave Smith, who manages all of 3M's bartering with travel agencies and airlines, says bartering helps 3M rationalize the $10 million a year that it spends on travel for its employees. "We're realizing a normal profit margin on goods we might normally have had difficulty moving."

Although it was initially difficult to persuade the various district executives at 3M of the value of bartering, Smith predicts in-house bartering teams will start to appear in more multinationals. "I would think that any major industry that advertises heavily or travels its employees around a lot will have its own bartering team in the future."

Robert Morgan, director of 3M's bartering team, says although more corporations are bartering their inventories, most companies aren't very cautious about what they receive in return for an exchange. "Most companies are happy just to unload their goods, but they should be more concerned about the other side of the coin. Unless you know the business, it's hard to tell if you're getting a fair exchange for something like advertising."

Hair dryers swapped for TV advertising

Times staff

The term barter implies a straight exchange of goods, but the typical transaction arranged by a private bartering firm is a very convoluted deal involving several corporations.

Tom Johnston of Atwood-Richards Canada Ltd. says because it is difficult to find a straight match in value for goods traded by a corporation, several companies are usually included to satisfy everyone's needs.

For example, Atwood-Richards just completed its largest trade in Canada involving $600,000 worth of hair dryers. Johnston purchased the dryers at wholesale price from the manufacturer and because the manufacturer did not want the hair dryers to compete with its new line in Canada, Atwood-Richards sold the dryers to a foreign retailer.

Atwood-Richards made its profit when it sold the dryers at a retail price in the foreign mart. The Canadian manufacturer, who paid nothing for the bartering transaction, was given television advertising in return for the dryers. At a later date the television station will receive the services of another Atwood-Richards' client for its contribution to the bartered deal.

The high demand for the foreign distribution of bartered goods means that Atwood-Richards now conducts 75% of its cash sales in foreign markets. Because it is difficult to match the refined goods of Canadian manufacturers with the raw products of most of his foreign buyers, Johnston says he will only trade Canadian goods for cash in the international market.

Barter in the Eastern bloc

MARKETS

DESPITE THE icy blasts on detente, trade officials aren't expecting a chill on Canadian trading efforts with the Eastern bloc. Alberta plans a trade mission to Eastern Europe and federal Trade Minister Ed Lumley may also visit the area before summer.

Two-way trade between Canada and Eastern Europe reached more than \$2.4 billion last year — vastly more than the \$1.5 billion in 1979 because of higher Canadian exports. This is the year of the five-year plans, and as details of these begin to emerge, there appear to be new opportunities for Canadian firms.

This is despite the fact Eastern European markets are notoriously difficult to penetrate as foreign trade is the special preserve of state-owned monopolies. However, once an exporter scales the heights of communist bureaucracies, he can expect repeat orders. Indeed, a core of firms have cornered most of our trade with Comecon.

They are also more familiar with countertrade — a means of payment which is becoming increasingly popular with foreign-exchange-impoverished Eastern Europe.

Until a few years ago, most wanted to make 20% payment in countertrade, now they want 100% and sometimes up to 120%. They are buying everything from nuclear plants to jetliners in the West, at the same time getting rid of whatever goods they can't export themselves.

According to the Italian magazine L'Espresso, some of the more notable recent barter deals include: Soviet partial payment in horsemeat to Fiat's trading house, Commisint, for a Lada plant in Togliattigrad; and 80,000 nights in Yugoslav hotels for three McDonnell Douglas DC10s.

Trade officials say Canadian firms should be looking to the expert trading houses in Vienna and Zurich for help in countertrade deals. There isn't a great deal of domestic expertise in this area, although Canadian firms and even government agencies have handled such deals on their own.

Within Eastern Europe some markets are more attractive than others. The Soviet Union itself is the most important to Canada now — with more than \$1.5 billion in exports last year, mostly wheat. But there was \$50 million-\$60 million-worth of manufactured exports as well.

Lada plant for horsemeat

Canadian firms have already expressed an interest in the planned US\$20-billion gas pipeline from the Yamal Peninsula to Western Europe, which could boost this figure eventually. Canadian consultants haven't been successful at cracking the Soviet market, but the pipeline project and forestry operations may change that.

Hungary, which recently received a \$10-million Export Development Corp. line of credit, and Romania are considered good markets. Hungary is discovering the advantages of capitalism and government officials are allowing firms to compete.

Czechoslovakia, where Vancouver-based H. A. Simons (Overseas) Ltd. is completing a US\$300-million pulp and paper mill, and Yugoslavia, which is looking at the Candu as a possibility for its nuclear-power program, are also considered fertile ground.

Poland, on the other hand, is clearly in trouble. With debt repayments to the West and current account deficits expected to cost \$6.6 billion this year, taking up at least 70% of hard-currency earnings, together with political uncertainty, nonessential imports have a low priority.

Massey-Ferguson-Perkins Limited
[illegible]
[illegible]
Telephone [illegible]
Tel xxxxx 311838

NA/EC

7th September 1981

T. H. C.
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Helen J. Perik,
Director Trade Education,
World Trade Centre Toronto,
60 Harbour Street,
Toronto,
Canada
M5J 1B7

Dear Ms Perik,

With reference to your letter of 4th August 1981 to Mr. P. Barger of Massey Ferguson Toronto and our recent telephone conversation, Mr. Barger has asked me to reply on his behalf.

As explained on the telephone, I am Countertrade Manager for Massey Ferguson Perkins Ltd. based in England but responsible for the development of Countertrade (Barter) activities for Massey Ferguson and Perkins around the World.

We have been involved with Countertrade in Eastern Europe (especially Poland) for several years and have developed over $150 million of enquiries for Polish goods and services since 1975, as part of an Industrial Co-operation/Countertrade Agreement.

More recently we have been developing Countertrade projects throughout the developing World and have found a great deal of interest in our proposals for co-operation, especially in Africa.

Contd..........

In England I have set up an "unofficial" group of Countertrade contacts between Countertrade Managers in various large U.K. and International Companies. I have found that in this type of activity all contacts are useful in the development of business. In fact, Companies who are "users" of products offered in Countertrade are often far more helpful than traders.

I enclose the completed questionnaire as requested and I would certainly be interested in receiving further information about the proposed Canadian Centre for Barter, especially as I am already in contact with a large grain trading organisation in Winnipeg with the objective of developing incremental business for Massey Ferguson products in Africa.

If you require any further information, please advise me.

Yours sincerely

Nigel Adams

Nigel Adams
Countertrade Manager

Encls.

Copies to : Mr. J.J. Campbell
Mr. J.D. Clutton
Mr. P. Barger
Mr. R. Clarke

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BY COURIER

September 4th, 1981.

Mr. Carlo Testa
University of Toronto
Architecture Department
230 College Street
Room 114
Toronto, Ontario

Dear Mr. Testa:

Further to our recent meeting, I would like to take the opportunity of setting out some of the highlights of an application for incorporation of a company along the lines that we had discussed.

1. A company should be organized on a Federally chartered basis. The application would be made to the Federal Government requesting an application for incorporation and if granted, would then be Federally "chartered".

2. The name of the company would have to be approved by the Department involved so that there would not be obvious confusion between your proposed name and any existing company that carries on substantially the same business. Such clearance could probably be pre-arranged.

3. The objects of the company must be broad in scope and subject to fairly easy amendment. In addition to the usual objects of corporations to own or lease real estate or borrow money, etc., more specific objects must be outlined. Sample wordings follow:

.../2

Mr. Carlo Testa
September 4th, 1981
Page 2

> "to assist in the development of the economy of Third World countries and to assist in the Canadian exportation of goods or services to these countries"

Alternatively, or in addition thereto, wordings such as the following may also be included:

> "to expedite the export of Third World products to Canada by utilizing barter trading methods".

Further, the objects would include the right to charge fees or commissions for barter trading services as well as power to employ consultants from time to time for specialized services input. In addition, the company ought to have the right to enter into contracts in its capacity as agent or broker on behalf of either the vendor or the purchaser of the barter commodity.

4. By-laws of the company would be set up to reflect such standard matters as banking resolutions and signing authority with financial institutions.

5. A board of directors would be designed to include a chairman, and an active board of directors numbering possibly four or less in total. AD hoc members of the board of directors would also be provided for, to a limited amount. Active directors could hold preferred shares carrying with it the power to vote with a casting vote to be in the name of the chairman. Common shares could be issued to be held in trust and with severe restrictions on their transferability, assignment, etc. Alternatively, no common shares need be issued. I understand that although this company is not to be incorporated as a non-profit corporation, the objective is not to distribute profits to shareholders or directors but instead to either re-capitalize surpluses or put them to related beneficial uses. If so, the company articles may provide that if shares are allotted, <u>no dividends</u> can be paid.

All other organizational steps can be taken subsequent to the incorporation, such as the appointment of auditors and the election of officers of a company in due course.

Mr. Carlo Testa
September 4th, 1981
Page 3

In addition to the foregoing, the philosophy or creed of the corporation can be more fully described and explained in the preamble of the charter or the objects of the corporation.

6. Further, a form of shareholders' agreement ought to be considered to clearly outline the nature of the shareholdings and more importantly their restrictions as to dividends, pledging and assignment.

The above are very brief preliminary points set out for your consideration regarding the proposed corporation. If you have any further questions, please do not hesitate to contact the undersigned. I look forward to discussing this matter with you in the future.

Yours faithfully,

Marshall N. Margolis

MNM:vjc